

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D.C.



REPLY TO
ATTN OF:

OSA-4988-65
#1763

SUBJECT:

REPLY TO:
Audit Liaison Office
P. O. Box 8155
Washington, D. C.

TO:

27 December 1965

SUBJECT: Review of ECP-1987-12 - Contract No. FH-7321
Airborne Instrument Laboratory
Deer Park, New York

TO : Contracting Officer

1. A review has been made of the contractor's cost proposal to provide assistance to the category Test Force in functions of Mission Interpretation, System Usage, Consolidation in Mission Areas and Software Support. This review consisted of an examination of the underlying data in support of proposed labor rates, overhead rates, material pricing, subcontracting, travel and subsistence, overtime premium and other direct costs. The direct labor hours, material requirements, the necessity for the proposed travel and overtime hours, are referred to for review by a qualified technical representative.

2. A summary of the contractor's proposal by element of cost and the auditor's recommendations are as follows:

	Per Contractor's Proposal	Auditor's Recommended Reduction	Ref Notes
Direct Labor - Engineering	\$ 43,891	\$ 5,985	
Direct Labor - Administrative	3,243	477	
	\$ 47,134	\$ 6,462	a
Engineering Burden 104%	49,019	7,534	c
Direct Labor - Field Engineering	21,070	2,288	b
Field Engineering Burden 50%	10,535	1,144	d
Materials	4,316		e
Subcontract	4,500		e
Travel and Subsistence	31,865		f
Overtime Premium	2,028	224	g
Other Direct Costs	1,880		e
Subtotal	\$172,347	\$17,652	
G & A 7.5%	12,926	1,479	h
Total Cost	\$185,273	\$19,131	
Fee Requested 7.5%	13,895		i
TOTAL PROPOSAL	\$199,168	20566	
	20566		
	178602		

Ref Notes:

a. Direct Labor - Engineering and Administrative \$6,462

(1) The audit exception is based on a comparison of the proposed average hourly rates with the incurred average hourly rates experienced to date under this contract (Project 1987.) It is the auditor's recommendation to substitute in lieu of the proposed rates, the average incurred rate being experienced under this program. It should be noted in prior reviews of ECP's applicable to this program the same basis was used for acceptance or adjustment of the hourly labor rates proposed. Furthermore, with 1/3 of the estimated engineering labor hours already incurred under this ECP, the average hourly engineering rate experienced is less than the overall average program rate. The auditor's computation of the recommended reduction is as follows:

	Average Hourly Rate <u>Proposed</u>	Auditor's Recommended Hourly Rate	Difference in Rates	Labor Hours <u>Proposed</u>	Auditor's Recommended Reduction Dif x Hours
Engineering	\$6.97	\$6.02	\$.95	6,300	\$5,985
Administrative	3.60	3.07	.53	900	<u>477</u>
Total Recommended Reduction					<u>\$6,462</u>

(2) The need for the number of labor hours proposed, is recommended for review by a qualified technical representative.

b. Direct Labor - Field Engineering \$2,288

(1) The contractor proposed two (2) field engineers for out-of-plant service for a period of ten (10) months. The hourly rates used to extend the estimated labor hours are based on performance by a Class IV employee (\$5.63 per hour) and a Class V employee (\$4.50 per hour.) The two (2) employees assigned to perform under this ECP are presently receiving an average hourly rate of \$4.51 or \$.55 less per hour than the average hourly rate proposed of \$5.06. The audit exception is based on application of the \$.55 per hour recommended reduction (\$5.06 - \$4.51 = \$.55) to the total estimated field service hours proposed (4,160 hours x \$.55 = \$2,288.)

(2) The labor hours are recommended for review by a technical representative.

c. Engineering Burden \$7,534

The contractor has proposed a rate of 104%. Based on an analysis of the current year's book rates as well as budgets and forecasts, the auditor recommends a rate of 102%. The audit exception is based on application of the 102% rate to the direct labor base not questioned, and the difference recommended for a reduction.

d. Field Engineering Burden

\$1,144

The contractor's rate of 50% is deemed acceptable for the purpose of this report. The recommended reduction is based on application of the acceptable rate to the field service labor costs questioned.

e. Materials, Subcontract and Other Direct Costs

The auditor verified the contractor's pricing of these items to purchase orders, vendor quotes and catalogues. No exceptions noted. The need for these items are recommended for review by a qualified technical representative.

f. Travel and Subsistence

The contractor's pricing of the basic travel costs has been reviewed and deemed acceptable for the purpose of this report. It is recommended, that the number of trips and the duration should be reviewed by a technical representative.

System Analyst - Seven 2-week trips @ \$801	\$ 5,607
Program Analyst - Nine 2-week trips @ \$801	7,209
Programmer - Nine 2-week trips @ \$801	7,209
Home Support - Ten 3-day trips @ \$416	4,160
Field Service - Two men for 10 months @ \$3,840	<u>7,680</u>
TOTAL travel per proposal	<u>\$31,865</u>

g. Overtime Premium

\$224

The contractor estimated 40 hours per month overtime for each of the two field service men for ten months. The overtime represents 25% of the estimated field service labor hours proposed, and should be reviewed by a technical representative as to necessity. The costs recommended for reduction results from the adjustment to the labor hourly rate noted in Ref Note b above and computed as follows:

$$\frac{1}{2} \text{ of } \$.55 = \$.28 \times 800 \text{ hours} = \$224$$

h. General and Administrative Expense

\$1,479

The auditor recommends a G & A rate of 7.4% in lieu of the contractor's proposed rate of 7.5%, based on a prior analysis of historical data, forecasts and budgets. The recommended reduction is computed by applying a 7.4% rate to the base costs not questioned and the difference questioned.

i. Fee Requested

The contractor has requested a fee based on 7.5% of the estimated costs.

3. The costs recommended for reduction were discussed with the contractor's representative, who withheld comment at this time.

WILLIAM F. EDWARDS
Auditor General Representative (APL)

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